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ORIGIN/ACTION * E-6

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TO : Department of STATE

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FROM : Amembassy Vienna

DATE: April 29, 1971

SUBJECT : OPEC Secretary General's Statement on the Libyan Oil

REF :

ES Airgram MESSAGE CONTROL 10/7/71

On April 19, 1971, OPEC headquarters in Vienna released an official statement by Secretary General, Nadim PACHACHI, regarding the Libyan settlement which the Embassy transmits as an unclassified enclosure.

Although praising the Libyan Government for the price settlement obtained, some of which will spill over to other petroleum exporters, the statement signifies by implication that most of the gain being based on the permanent freight premium increase, could overprice Libyan oil. However, there is some protection noted in the fact that the temporary freight allowances may provide some protective margin for Libyan oil to compete since the posted price can decrease when opening of the Suez Canal and a leveling off of freight rates permits a decrease in the Libyan posted prices.

Pachachi makes the most of the increase received in the settlement on the basis of the premium for low sulphur content. He intimates that the real price breakthrough is in this sector since oil companies have been historically most opposed to giving any low sulphur premiums. At the same time in pointing out that Libya is not the only area having low sulphur crudes, the statement portends price adjustments for Persian Gulf and other area producers.

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Drafted by: ECON:JOEblan:jms

Contents and Classification Approved by: ECON:AGeber

Clearances:

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Pachachi's role as the petroleum advisor of Abu Dhabi, as well as OPEC Secretary General, lends some weight to the idea that adjustments in the Tehran Gulf agreement are in the offing. Indeed, even before the conclusion of the Libyan negotiations, he mentioned to Embassy officers (Vienna 1968) that Abu Dhabi and Oman would most probably apply for price adjustments if Libya succeeded in getting a low-sulphur premium.

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VIENNA A-345
Enclosure 4-29-71

ORGANIZATION
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1010 VIENNA I, AUSTRIA
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Vienna, April 19, 1971

Statement by OPEC's Secretary General, Dr. Nadim Pachachi, on the Libyan Settlement

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The Libyan Government is indeed to be congratulated for the recent satisfactory price settlement reached with oil companies operating in Libya. The negotiations were throughout very ably conducted and the resulting "package" represents an improvement over the Tehran terms.

I wish, however, to single out two very significant aspects of the Agreement, which deserve special praise; these are:

1) A permanent freight differential over the Gulf built into the new base posting of $3.070.

2) The recognition, in monetary terms, of the value of low sulphur crudes.

Both these aspects should prove beneficial not only to Libya, but to other Member Countries of OPEC.

Freight Differential

The Agreement provides for a base posting of $3.070 per barrel, in which is incorporated a permanent freight differential of 69 cents per barrel, representing the locational advantage that Libya enjoys over the Gulf. On top of this permanent contractual freight premium built into the base posting, there is a temporary freight premium of 25 cents per barrel, which brings the total freight advantage currently enjoyed by Libyan crudes to 94 cents per barrel. The temporary or moving element is composed of 12 cents in respect of the Canal closure and 13 cents in recognition of present high freight rates. The figure for the permanent short haul freight advantage over the Gulf represents the freight differential between Ras Tanura to Rotterdam and Brega to Rotterdam at

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In Japan, the oil industry quotes that the operating cost of a fuel desulphurization unit, after taking the by-products credit into consideration, for 1% sulphur content reduction of fuel oils, varies from 30 to 35 cents/barrel, depending on the quality of the crude oil and the type of process employed, as well as the rate of plant operation. In Venezuela, he cost of desulphurizing one barrel of high sulphur content fuel oil down to 1% sulphur fuel has been estimated at 78 cents/barrel.

As is well known, Libyan crudes are not the only ones in OPEC areas that qualify for this low sulphur premium. Some light crudes of the Gulf, especially the Abu Dhabi Murban crude (the sulphur content of the crude is less than 1% and that of the residual fuel oil produced from such crude is 1.5%), have an equally valid claim for such a premium. The sulphur content of the residual fuel produced from Indonesian Minas and Duri crudes is between 0.4% and 0.2%. Such crude oils have now become under-posted in comparison with other crudes. In my view, an equitable adjustment of their prices is essential.

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